

VZCZCXRO4696
PP RUEHAG RUEHBC RUEHDE RUEHKUK RUEHROV
DE RUEHLB #0794/01 1551625
ZNY SSSSS ZZH
P 041625Z JUN 07
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC PRIORITY 8400
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RHMFISS/CDR USCENCOM MACDILL AFB FL
RHMFISS/HQ USEUCOM VAIHINGEN GE
RHEHNSC/NSC WASHDC
RUEHNO/USMISSION USNATO 1196

S E C R E T SECTION 01 OF 04 BEIRUT 000794

SIPDIS

SIPDIS

NEA FOR ABRAMS/SINGH/MARCHESE/HARDING

E.O. 12958: DECL: 06/01/2027

TAGS: [PREL](#) [KDEM](#) [PGOV](#) [LE](#) [SY](#)

SUBJECT: HADDAD, AZOUR CONVINCED SYRIA WANTS RIAD SALAMEH
AS LEBANON'S NEXT PRESIDENT

REF: BEIRUT 789

Classified By: Jeffrey Feltman, Ambassador, per 1.4 (b) and (d).

SUMMARY

¶1. (S) After shooing out their staff members and Embassy notetaker after a lengthy meeting on economic and financial matters (reftel), Minister of Finance Jihad Azour and Minister of Economy and Trade Sami Haddad told the Ambassador on 6/1 that they were deeply concerned about the "charm offensive" that Central Bank Governor Riad Salameh has initiated with the United States, France, and others. Salameh, they argued, is the banker version of Emile Lahoud, Lebanon's unabashedly pro-Syrian president, and has emerged as the favorite candidate of Syria and Hizballah to replace Lahoud in autumn elections. Like Lahoud's previous reputation as having saved the Lebanese army, Salameh is credited with saving Lebanon's financial sector. But, in fact, there are so many skeletons in Salameh's closet that Syria will easily control him. Syria's aim, Azour and Haddad argued, is to take Lebanon to a crossroads, by which chaos is ahead in one direction and a Riad Salameh presidency in the other. Speaking separately, Mohamad Chatah, senior advisor to PM Siniora, said that he, too, found Salameh untrustworthy. If Siniora would veto just one presidential candidate, Chatah said, it would be Salameh, for his role in a 2004 debt swap that allied him with Lahoud and in opposition to his long-term mentor Rafiq Hariri. But Chatah, while opposed to Salameh's presidential bid, did not believe that a Salameh presidency would be as disastrous as that described by Azour and Haddad. Chatah counted on Maronite Patriarch Sfeir's known distaste for Salameh as reducing his chances to ascend to Baabda Palace. End summary.

SALAMEH PROJECTS BLANDNESS
TO AVOID VETO ON CANDIDACY

¶2. (S) On 6/1, after the conclusion of a broader discussion (reftel), Minister of Finance Jihad Azour and Minister of Economy and Trade Sami Haddad met the Ambassador to talk politics for an additional 45 minutes. Interrupting and finishing each other's sentences as if they were an old married couple, the two economic ministers (who within the cabinet are the closest in spirit and relations to PM Fouad Siniora) wanted to sound the alarm about Central Bank of Lebanon (CBL) Governor Riad Salameh's presidential bid. They expressed particular concern about Salameh's recent trip to Washington, which Salameh had not announced in advance to his

Lebanese colleagues. Azour and Haddad, referring to former French President Jacques Chirac's highlighting of Salameh's role during Paris III, argued that Salameh is on a "charm offensive" far and wide. Even if his discussions in Washington were technical in nature -- as the Ambassador argued -- Salameh's strategy is clear, Haddad said: to make sure that he is thought of favorably enough that no one would veto his candidacy. Salameh emphasizes his blandness to avoid being seen as objectionable to anyone, Haddad said.

SALAMEH IS SYRIA'S CANDIDATE,
AZOUR AND HADDAD ARGUE

13. (S) Azour and Haddad stated their belief that Salameh is the actual presidential preference of Hizballah and Syria. While Syria and Hizballah will toy with Michel Aoun in order to divide the Christians, in the end Aoun will be deemed untrustworthy. Aoun will be traded away in favor of Salameh, and March 14 leaders will believe they got a victory by avoiding an Aoun presidency. In fact, they will have fallen into a trap. If March 14 leaders hesitate or resist going for Salameh, then Syria will destabilize the country to the point where Lebanese leaders find themselves at a crossroads: one direction leads to chaos, and the other to a Riad Salameh presidency. Faced with that choice, the parliament will elect Salameh.

WHAT LAHOUD WAS TO THE ARMY,
AZOUR IS TO FINANCIAL CIRCLES

14. (S) While questioning their stark conclusions, the

BEIRUT 00000794 002 OF 004

Ambassador asked whether a Salameh presidency would really be so bad. After all, during the first half of 2005, when Lebanon had no effective cabinet in the aftermath of Rafiq Hariri's murder, Salameh had almost single-handedly prevented a financial meltdown. He has a very good reputation among bankers and business leaders that can be used to good effect, as was proven at Paris III. Azour and Haddad accused the Ambassador of having been seduced by Salameh's propaganda. Salameh is the financial sector equivalent of Emile Lahoud, they claimed. In 1998, Emile Lahoud was touted as the savior of the army, someone who had been able to bring back a unified force after the devastation of the civil war. He was elected ostensibly in his savior role. Now, Salameh is described as the savior of the banking and financial sector. Once he is in office, he will prove to be just as pro-Syrian as Lahoud. Maybe his words won't be as offensive as Lahoud's, but he will be a very safe choice for Syria.

SYRIA'S TOOL TO CONTROL
SALAMEH: BLACKMAIL

15. (S) Azour and Haddad claimed that Salameh has so many skeletons in his closet that the Syrians will be able to threaten blackmail to keep him on a very tight leash. Exhibit A is Bank al-Medina, with Salameh being the principal backer of the original cover-up. Then there is the questionable way the Central Bank is run, with far less transparency and many more questionable practices than Salameh's stellar reputation would have one believe. Just wait until the IMF, under the EPCA, figures out what is really going on in the CBL, Haddad warned. Salameh's continued excuses to avoid selling off inappropriate commercial assets (Middle East Airlines, Intra, etc.) is also suspicious.

16. (S) Haddad (the more excitable of the two ministers) then launched into an attack on the good press Salameh receives from the pro-Syrian newspaper ad-Diyyar: the fact that ad-Diyyar loves Salameh "should tell us something,"

Haddad said. What it tells us, he continued, is that the rumors are probably true that Salameh has given a credit line at the Casino du Liban (in which the Central Bank, through Intra, has a stake) to Charles Ayyoub, the gambling addict who heads ad-Diyyar, to assure good press. Salameh's personal life also gives the Syrians blackmail material, they claimed, hinting that the much-rumored closeted homosexual relationship between Salameh and MEA Chairman Mohamed al-Hout is true and not Salameh's only extramarital dalliance. "You know the story about Ramzi?" Haddad asked, in reference to an oft-repeated (but unconfirmable) rumor that the Syrian military authorities used to keep Salameh in line by phoning him and calling him "Ramzi," the name of his male paramour and driver at the time.

SALAMEH'S DEBT SWAP:
BETRAYAL OF HARIRI

17. (S) The Ambassador noted that Rafiq Hariri's widow Nazeq seems to like Salameh, which would seem to argue that he's not as pro-Syrian as Azour and Haddad suggest. Azour and Haddad admitted being mystified by the Widow Hariri's preference, given that Salameh (in Haddad's words) "betrayed" Hariri less than a year before his murder. The betrayal allegedly came in the form of a debt swap deal worked out behind Hariri's back between Salameh, Emile Lahoud, and Lebanon's commercial banks in spring 2004. Hariri, knowing that parliamentary elections were approaching at about the same time as some debt came due, wanted to demonstrate his financial magic in saving Lebanon from a financial crisis. (Separately, Marwan Hamadeh told us that Hariri also saw the maturities as a political tool to threaten against Lahoud's presidential extension.) Salameh basically beat Hariri at his own game through an early debt swap that he announced publicly.

18. (C) In contrast to those who applaud Salameh's 2004 debt swap, Azour argued that the debt swap cost Lebanon millions in penalties for early pay offs and higher interest rates than those Hariri would have obtained through his personal touch. Haddad had an even darker interpretation: that the debt swaps, by removing the sword of maturities over Lebanon

BEIRUT 00000794 003 OF 004

in the first half of 2005, actually permitted the Syrians to kill Hariri in the knowledge that Lebanon's economy, linked to Syria's, would not collapse under the shock of the Hariri assassination.

19. (S) The Ambassador noted that Azour and Haddad were in part reflecting the distaste PM Siniora has for Salameh. But, the Ambassador added, Siniora is most likely not going to be prime minister when a new president takes office. When the presidential elections trigger a new cabinet, Saad Hariri is likely to take the premiership. So that means that the personal relationship between president and prime minister, so bad between Lahoud and Hariri and now between Lahoud and Siniora, might improve. Azour and Haddad agreed but suggested that Hariri's ambitions to become PM make it even more critical that Salameh not be permitted to ascend to Baabda: whereas Siniora, who has battled Salameh for years, might be able to check some of Salameh's worst proposals, the less experienced Hariri will be more easily tricked.

SINIORA WOULD VETO SALAMEH --
AS WOULD PATRIARCH, CHATAH SAYS

10. (S) On June 2, the Ambassador compared notes with Mohamad Chatah, Siniora's senior advisor. Like Azour and Haddad, Chatah was curious about Salameh's Washington excursion. Chatah said that he, too, hoped Salameh would not become president. "Can you really trust him?" he asked, talking about how he "switched sides" from Hariri to Lahoud. Chatah mused that, if Siniora were to be given a single veto

over all presidential candidates, he would use it against Salameh because of the debt swap deal. But, Chatah concluded, if the choice is between chaos and Salameh, then it is certainly better to go for Salameh. "He's bad, but he's not as bad as Lahoud," Chatah concluded. He also noted that it is commonly accepted that Maronite Patriarch Sfeir dislikes Salameh and could thus be expected to intervene to prevent a Salameh presidency. Chatah laughed that at least Siniora and Sfeir agree on one thing: no Salameh presidency.

COMMENT

¶11. (S) Whether or not it is truly due to a Syrian plot, we think Salameh's candidacy is indeed serious. The banking and business community already favors him, and he is frequently mentioned as a likely "compromise" candidate between March 14 and March 8 political blocs. While Azour -- unlike the firebrand Haddad -- never veered from polite language appropriate for gentile grandmothers, there was more than a hint of viciousness in Azour and Haddad's attacks on the Governor. We note that they are hardly disinterested parties making neutral observations; they are partisans of Fouad Siniora, who despises Salameh for a lot of historic and personal reasons. Moreover, Azour has a relative -- Jean Obeid -- with presidential ambitions himself. Finally, Azour and Haddad no doubt harbor deep grudges against Salameh themselves. In dragging his feet on issues such as the privatization of MEA ("what other Central Bank runs an airline?" Haddad asked in exasperation), Salameh has done more than probably any other single person to slow or even derail Azour and Haddad's reform agenda. (We note that Salameh's vow to sell 25 percent of MEA is most likely simply a ploy to avoid having to divest the entire airline, the route Azour, Haddad, and Siniora advocate.)

¶12. (S) Salameh has indeed performed some miraculous financial engineering over the years that probably would raise the eyebrows of IMF monitors and other central bankers, but his measures had the virtue (some would say vice) of enabling Lebanon, so far, to defy financial gravity. And it is hardly fair to blame Salameh for collusion with the Syrian regime during the Syrian occupation of Lebanon, as most of our favorite March 14 leaders did exactly the same at the time (as Michel Aoun so delights in reminding us). Still, for all of his professional savvy, there is something inherently elusive and slippery about Salameh. As forthcoming as he postures himself in meetings, one always has the sense that he is keeping more back than he is sharing. If we are asked who do we trust more -- Siniora, Azour, and Haddad on the one side, or Salameh on the other -- we immediately side with the Siniora team. Even his 2005

BEIRUT 00000794 004 OF 004

renewal as Central Bank Governor has a whiff of illegitimacy: his term expired at the end of July that year, meaning that the cabinet that emerging from the 2005 democratic legislative elections had time to deal with the question. But then--PM Najib Mikati's cabinet rushed the renewal months in advance, leaving incoming PM Siniora with a fait accompli.

¶13. (S) What concerns us the most are the allegations that appear to be credible that Salameh has continued to travel to Damascus. Supposedly, his modus operandi is to go to Europe or elsewhere in the region and then disappear for a few hours or a day, on private chartered plane to and from Syria; such travel is harder to detect than a direct trip from Beirut to Damascus. This seems to be true. In addition, UN Special Coordinator for Lebanon Geir Pedersen (please protect) has told us that this Hizballah contacts speak glowingly of Salameh. All of this makes us very uncomfortable with the idea of a Salameh presidency. Lebanon could do worse -- as it is now, under Lahoud -- but we hope it does much better. We repeat here a line, perhaps apocryphal, attributed to the

Patriarch: Since everyone says Salameh is doing such a great job at the Central Bank, why move him?
FELTMAN